

PROGRESSIVE CORP/OH/
Form 10-Q
November 12, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2013

or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File Number: 1-9518

THE PROGRESSIVE CORPORATION
(Exact name of registrant as specified in its charter)

Ohio 34-0963169
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

6300 Wilson Mills Road, Mayfield Village, Ohio 44143
(Address of principal executive offices) (Zip Code)
(440) 461-5000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Shares, \$1.00 par value: 599,996,304 outstanding at September 30, 2013

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

The Progressive Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(unaudited)

Periods Ended September 30, (millions—except per share amounts)	Three Months			Nine months		
	2013	2012	% Change	2013	2012	% Change
Revenues						
Net premiums earned	\$4,303.0	\$4,054.8	6	\$12,759.3	\$11,912.4	7
Investment income	107.4	109.0	(1)	310.1	336.2	(8)
Net realized gains (losses) on securities: Other-than-temporary impairment (OTTI) losses:						
Total OTTI losses	(1.9)	(.4)	375	(3.6)	(6.0)	(40)
Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses	0	0	NM	(.1)	(.7)	(86)
Net impairment losses recognized in earnings	(1.9)	(.4)	375	(3.7)	(6.7)	(45)
Net realized gains (losses) on securities	29.8	172.3	(83)	245.1	251.4	(3)
Total net realized gains (losses) on securities	27.9	171.9	(84)	241.4	244.7	(1)
Fees and other revenues	76.0	78.4	(3)	215.3	213.5	1
Service revenues	11.3	9.9	14	30.3	28.3	7
Gains (losses) on extinguishment of debt	(4.3)	(.1)	4200	(4.3)	(1.8)	139
Total revenues	4,521.3	4,423.9	2	13,552.1	12,733.3	6
Expenses						
Losses and loss adjustment expenses	3,164.2	3,068.2	3	9,266.7	8,874.3	4
Policy acquisition costs	363.1	357.3	2	1,086.0	1,081.4	0
Other underwriting expenses	602.3	542.5	11	1,769.0	1,681.2	5
Investment expenses	5.2	3.3	58	14.5	11.3	28
Service expenses	11.1	9.6	16	30.1	27.7	9
Interest expense	30.4	30.6	(1)	91.4	93.2	(2)
Total expenses	4,176.3	4,011.5	4	12,257.7	11,769.1	4
Net Income						
Income before income taxes	345.0	412.4	(16)	1,294.4	964.2	34
Provision for income taxes	112.6	135.4	(17)	428.8	311.0	38
Net income	232.4	277.0	(16)	865.6	653.2	33
Other Comprehensive Income (Loss), Net of Tax						
Net unrealized gains (losses) on securities:						
Net non-credit related OTTI losses, adjusted for valuation changes	0	1.7	NM	.3	4.8	(94)
Other net unrealized gains (losses) on securities	57.8	60.6	(5)	2.4	209.0	(99)
Total net unrealized gains (losses) on securities	57.8	62.3	(7)	2.7	213.8	(99)
Net unrealized gains on forecasted transactions	(.9)	(.3)	200	(1.6)	(1.5)	7

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Foreign currency translation adjustment	(.2) .4	NM	(1.2) .3	NM
Other comprehensive income (loss)	56.7	62.4	(9)	(.1) 212.6	NM
Comprehensive income	\$289.1	\$339.4	(15)	\$865.5	\$865.8	0
Computation of Net Income Per Share						
Average shares outstanding - Basic	598.9	601.9	0	599.7	604.3	(1)
Net effect of dilutive stock-based compensation	4.6	4.6	0	4.2	4.2	0
Total equivalent shares - Diluted	603.5	606.5	0	603.9	608.5	(1)
Basic: Net income per share	\$.39	\$.46	(16)	\$1.44	\$1.08	34
Diluted: Net income per share	\$.39	\$.46	(16)	\$1.43	\$1.07	34
Dividends declared per share ¹	\$0	\$0		\$0	\$0	

NM = Not Meaningful

¹Progressive maintains an annual dividend program. See Note 8 - Dividends for further discussion.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Consolidated Balance Sheets
(unaudited)

(millions)	September 30, 2013	2012	December 31, 2012
Assets			
Investments - Available-for-sale, at fair value:			
Fixed maturities (amortized cost: \$13,644.9, \$11,864.0, and \$11,373.9)	\$ 13,797.7	\$ 12,295.2	\$ 11,774.1
Equity securities:			
Nonredeemable preferred stocks (cost: \$442.1, \$430.1, and \$404.0)	726.0	848.4	812.4
Common equities (cost: \$1,422.3, \$1,101.5, and \$1,370.3)	2,326.1	1,639.2	1,899.0
Short-term investments (amortized cost: \$1,146.1, \$2,394.1, and \$1,990.0)	1,146.1	2,394.1	1,990.0
Total investments	17,995.9	17,176.9	16,475.5
Cash	100.9	192.2	179.1
Accrued investment income	91.5	88.2	90.0
Premiums receivable, net of allowance for doubtful accounts of \$133.7, \$133.5, and \$138.6	3,500.8	3,356.0	3,183.7
Reinsurance recoverables, including \$36.4, \$32.5, and \$38.9 on paid losses and loss adjustment expenses	1,031.9	880.5	901.0
Prepaid reinsurance premiums	82.6	72.8	66.3
Deferred acquisition costs	474.7	461.8	434.5
Net deferred income taxes	27.4	105.3	109.4
Property and equipment, net of accumulated depreciation of \$665.8, \$603.7, and \$625.0	955.3	918.2	933.7
Other assets	247.9	235.3	321.5
Total assets	\$24,508.9	\$23,487.2	\$22,694.7
Liabilities and Shareholders' Equity			
Unearned premiums	\$5,477.9	\$5,203.4	\$4,930.7
Loss and loss adjustment expense reserves	8,310.3	7,760.2	7,838.4
Accounts payable, accrued expenses, and other liabilities	1,917.5	1,906.3	1,855.5
Debt ¹	2,010.6	2,062.7	2,063.1
Total liabilities	17,716.3	16,932.6	16,687.7
Common Shares, \$1.00 par value (authorized 900.0; issued 797.6, 797.7, and 797.7, including treasury shares of 197.6, 193.0, and 193.1)	600.0	604.7	604.6
Paid-in capital	1,123.0	1,048.6	1,077.0
Retained earnings	4,198.7	3,996.2	3,454.4
Accumulated other comprehensive income, net of tax:			
Net non-credit related OTTI losses, adjusted for valuation changes	0	(.6	) (.3
Other net unrealized gains (losses) on securities	865.4	897.2	863.0
Total net unrealized gains (losses) on securities	865.4	896.6	862.7
Net unrealized gains on forecasted transactions	4.5	6.4	6.1
Foreign currency translation adjustment	1.0	2.1	2.2
Total accumulated other comprehensive income	870.9	905.1	871.0
Total shareholders' equity	6,792.6	6,554.6	6,007.0
Total liabilities and shareholders' equity	\$24,508.9	\$23,487.2	\$22,694.7

¹Consists of both short- and long-term debt. See Note 4 - Debt.
See notes to consolidated financial statements.

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The Progressive Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited)

Nine months ended September 30,

(millions)

Cash Flows From Operating Activities

	2013	2012	
Net income	\$865.6	\$653.2	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	74.9	69.1	
Amortization of fixed-income securities	111.4	145.3	
Amortization of equity-based compensation	49.8	45.8	
Net realized (gains) losses on securities	(241.4	) (244.7)
Net (gains) losses on disposition of property and equipment	4.1	4.8	
(Gains) losses on extinguishment of debt	4.3	1.8	
Changes in:			
Premiums receivable	(317.4	) (426.2)
Reinsurance recoverables	(130.9	) (62.5)
Prepaid reinsurance premiums	(16.3	) (3.0)
Deferred acquisition costs	(40.2	) (28.2)
Income taxes	77.3	45.7	
Unearned premiums	548.0	624.0	
Loss and loss adjustment expense reserves	472.0	514.4	
Accounts payable, accrued expenses, and other liabilities	277.4	306.6	
Other, net	9.4	19.2	
Net cash provided by operating activities	1,748.0	1,665.3	
Cash Flows From Investing Activities			
Purchases:			
Fixed maturities	(6,070.8	) (3,997.0)
Equity securities	(260.2	) (176.1)
Sales:			
Fixed maturities	2,352.8	2,416.0	
Equity securities	308.0	737.4	
Maturities, paydowns, calls, and other:			
Fixed maturities	1,338.7	1,094.1	
Equity securities	0	4.0	
Net (purchases) sales of short-term investments—other	843.0	(842.9)
Net unsettled security transactions	154.6	14.5	
Purchases of property and equipment	(105.6	) (84.2)
Sales of property and equipment	2.4	3.4	
Net cash used in investing activities	(1,437.1	) (830.8)
Cash Flows From Financing Activities			
Proceeds from exercise of stock options	0	.5	
Tax benefit from exercise/vesting of equity-based compensation	10.3	5.6	
Payment of debt	0	(350.0)
Reacquisition of debt	(58.1	) (32.5)
Dividends paid to shareholders ¹	(175.6	) (252.4)
Acquisition of treasury shares	(164.8	) (170.1)
Net cash used in financing activities	(388.2) (798.9)
Effect of exchange rate changes on cash	(.9)	.9	

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Increase (decrease) in cash	(78.2) 36.5
Cash, January 1	179.1	155.7
Cash, September 30	\$100.9	\$192.2

¹Progressive maintains an annual dividend program. See Note 8 - Dividends for further discussion.
See notes to consolidated financial statements.

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The Progressive Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 1 Basis of Presentation — The consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries, a mutual insurance company affiliate, and a limited partnership investment affiliate. All of the subsidiaries and affiliates are wholly owned or controlled. The consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, were necessary for a fair statement of the results for the interim periods presented. The results of operations for the period ended September 30, 2013, are not necessarily indicative of the results expected for the full year. These consolidated financial statements and the notes thereto should be read in conjunction with Progressive's audited financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Consistent with the presentation in our Annual Report on Form 10-K for the year ended December 31, 2012, we revised the presentation of our Statements of Comprehensive Income for the third quarter and first nine months of 2012, to correctly classify \$78.4 million and \$213.5 million, respectively, of fees and other revenues as a component of total revenues. Previously, these items were presented net within our other underwriting expenses. These revisions had no effect on the results of operations (net or comprehensive income), financial condition (shareholders' equity), or cash flows and are not considered to be material.

Note 2 Investments — The following tables present the composition of our investment portfolio by major security type, consistent with our classification of how we manage, monitor, and measure the portfolio:

(\$ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses) ¹	Fair Value	% of Total Fair Value
September 30, 2013						
Fixed maturities:						
U.S. government obligations	\$3,691.2	\$61.8	\$(11.3)	\$0	\$3,741.7	20.8 %
State and local government obligations	2,125.7	29.9	(17.0)	0	2,138.6	11.9
Foreign government obligations ²	15.9	0	0	0	15.9	.1
Corporate debt securities	3,118.8	67.0	(28.9)	.7	3,157.6	17.6
Residential mortgage-backed securities	994.9	31.5	(16.5)	0	1,009.9	5.6
Commercial mortgage-backed securities	2,224.1	49.0	(33.1)	0	2,240.0	12.4
Other asset-backed securities	1,143.3	7.4	(2.0)	.2	1,148.9	6.4
Redeemable preferred stocks	331.0	24.5	(10.4)	0	345.1	1.9
Total fixed maturities	13,644.9	271.1	(119.2)	.9	13,797.7	76.7
Equity securities:						
Nonredeemable preferred stocks	442.1	280.5	(4.8)	8.2	726.0	4.0
Common equities	1,422.3	908.8	(5.0)	0	2,326.1	12.9
Short-term investments:						
Other short-term investments	1,146.1	0	0	0	1,146.1	6.4
Total portfolio ^{3,4}	\$16,655.4	\$1,460.4	\$(129.0)	\$9.1	\$17,995.9	100.0 %

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(\$ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses) ¹	Fair Value	% of Total Fair Value
September 30, 2012						
Fixed maturities:						
U.S. government obligations	\$3,433.7	\$110.4	\$(.1)	\$0	\$3,544.0	20.6 %
State and local government obligations	1,898.9	61.0	(.4)	0	1,959.5	11.4
Foreign government obligations	0	0	0	0	0	0
Corporate debt securities	2,687.8	128.8	(.4)	6.3	2,822.5	16.4
Residential mortgage-backed securities	399.5	21.6	(12.4)	0	408.7	2.4
Commercial mortgage-backed securities	1,998.2	90.7	(1.3)	0	2,087.6	12.2
Other asset-backed securities	1,077.9	14.5	(.1)	0	1,092.3	6.4
Redeemable preferred stocks	368.0	27.1	(14.5)	0	380.6	2.2
Total fixed maturities	11,864.0	454.1	(29.2)	6.3	12,295.2	71.6
Equity securities:						
Nonredeemable preferred stocks	430.1	416.8	0	1.5	848.4	4.9
Common equities	1,101.5	543.8	(6.1)	0	1,639.2	9.6
Short-term investments:						
Other short-term investments	2,394.1	0	0	0	2,394.1	13.9
Total portfolio ^{3,4}	\$15,789.7	\$1,414.7	\$(35.3)	\$7.8	\$17,176.9	100.0 %

(\$ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses) ¹	Fair Value	% of Total Fair Value
December 31, 2012						
Fixed maturities:						
U.S. government obligations	\$2,806.4	\$90.1	\$0	\$0	\$2,896.5	17.6 %
State and local government obligations	1,914.4	50.6	(.6)	0	1,964.4	11.9
Foreign government obligations	0	0	0	0	0	0
Corporate debt securities	2,982.9	124.7	(1.0)	6.4	3,113.0	18.9
Residential mortgage-backed securities	413.4	24.0	(9.2)	0	428.2	2.6
Commercial mortgage-backed securities	1,963.9	84.9	(.1)	0	2,048.7	12.4
Other asset-backed securities	936.0	12.9	(.1)	(.2)	948.6	5.8
Redeemable preferred stocks	356.9	30.5	(12.7)	0	374.7	2.3
Total fixed maturities	11,373.9	417.7	(23.7)	6.2	11,774.1	71.5
Equity securities:						
Nonredeemable preferred stocks	404.0	404.6	0	3.8	812.4	4.9
Common equities	1,370.3	539.0	(10.3)	0	1,899.0	11.5
Short-term investments:						
Other short-term investments	1,990.0	0	0	0	1,990.0	12.1
Total portfolio ^{3,4}	\$15,138.2	\$1,361.3	\$(34.0)	\$10.0	\$16,475.5	100.0 %

¹Represents net holding period gains (losses) on certain hybrid securities (discussed below).

²Reflects an Australian government obligation at September 30, 2013.

³At September 30, 2013, we had \$63.7 million of net unsettled security transactions, including collateral on open derivative positions, recognized in other liabilities, compared to \$32.4 million and \$90.9 million recognized in other

assets at September 30, 2012 and December 31, 2012, respectively.

⁴The total fair value of the portfolio at September 30, 2013 and 2012, and December 31, 2012 included \$1.3 billion, \$1.6 billion, and \$1.4 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company.

Our other short-term investments include commercial paper, reverse repurchase transactions, and other investments that are expected to mature within one year. We had \$278.1 million, \$798.1 million, and \$581.0 million of open reverse repurchase commitments at September 30, 2013 and 2012, and December 31, 2012, respectively. At these dates, we did not hold any repurchase transactions where we lent collateral. To the extent our repurchase transactions were with the same counterparty and subject to an enforceable master netting arrangement, we could elect to offset these transactions. Historically, we have chosen to report these transactions on a gross basis on our balance sheets.

Included in our fixed-maturity and equity securities are hybrid securities, which are reported at fair value:

(millions)	September 30, 2013	2012	December 31, 2012
Fixed maturities:			
Corporate debt securities	\$ 171.8	\$ 177.5	\$ 176.1
Other asset-backed securities	15.3	16.4	16.4
Total fixed maturities	187.1	193.9	192.5
Equity securities:			
Nonredeemable preferred stocks	57.3	50.5	52.8
Total hybrid securities	\$ 244.4	\$ 244.4	\$ 245.3

Certain corporate debt securities are accounted for as hybrid securities since they were acquired at a substantial premium and contain a change-in-control put option (derivative) that permits the investor, at its sole option if and when a change in control is triggered, to put the security back to the issuer at a 1% premium to par. Due to this change-in-control put option and the substantial market premium paid to acquire these securities, there is the potential that the election to put, upon the change in control, could result in an acceleration of the remaining premium paid on these securities, which would result in a loss of \$12.3 million as of September 30, 2013, if all of the bonds experienced a simultaneous change in control and we elected to exercise all of our put options. The put feature limits the potential loss in value that could be experienced in the event a corporate action occurs that results in a change in control that materially diminishes the credit quality of the issuer. We are under no obligation to exercise the put option we hold if a change in control occurs.

The other asset-backed security in the table above represents one hybrid security that was acquired at a deep discount to par due to a failing auction, and contains a put option that allows the investor to put that security back to the auction at par if the auction is restored. This embedded derivative has the potential to more than double our initial investment yield.

The hybrid securities in our nonredeemable preferred stock portfolio are perpetual preferred stocks that have call features with fixed-rate coupons, whereby the change in value of the call features is a component of the overall change in value of the preferred stocks.

Our securities are reported at fair value, with the changes in fair value of these securities (other than hybrid securities and derivative instruments) reported as a component of accumulated other comprehensive income, net of deferred income taxes. The changes in fair value of the hybrid securities and derivative instruments are recorded as a component of net realized gains (losses) on securities.

Fixed Maturities The composition of fixed maturities by maturity at September 30, 2013, was:

(millions)	Cost	Fair Value
Less than one year	\$2,032.1	\$2,063.1
One to five years	8,610.3	8,767.3
Five to ten years	2,834.8	2,794.5
Ten years or greater	114.2	119.3
Total ¹	\$13,591.4	\$13,744.2

¹Excludes \$53.5 million related to our open interest rate swap positions.

Asset-backed securities are classified across the maturity distribution table based upon their projected distribution of cash flows. All other securities that do not have a single maturity date are reported at their expected maturity date. Contractual maturities may differ from expected maturities because the issuers of the securities may have the right to call or prepay obligations.

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Gross Unrealized Losses As of September 30, 2013, we had \$124.0 million of gross unrealized losses in our fixed-income securities (i.e., fixed-maturity securities, nonredeemable preferred stocks, and short-term investments) and \$5.0 million in our common equities. We currently do not intend to sell the fixed-income securities and determined that it is more likely than not that we will not be required to sell these securities for the period of time necessary to recover their cost bases. A review of our fixed-income securities indicated that the issuers were current with respect to their interest obligations and that there was no evidence of any deterioration of the current cash flow projections that would indicate we would not receive the remaining principal at maturity. In addition, 88% of our common stock portfolio was indexed to the Russell 1000; as such, this portfolio may contain securities in a loss position for an extended period of time, subject to possible write-downs, as described below. We may retain these securities as long as the portfolio and index correlation remain similar. To the extent there is issuer specific deterioration, we may write-down the securities of that issuer. The remaining 12% of our common stocks are part of a managed equity strategy selected and administered by external investment advisors. If our strategy were to change and these securities were determined to be other-than-temporarily impaired, we would recognize a write-down in accordance with our stated policy.

The following tables show the composition of gross unrealized losses by major security type and by the length of time that individual securities have been in a continuous unrealized loss position:

(millions)	Total Fair Value	Gross Unrealized Losses	Less than 12 Months		12 Months or Greater	
			Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2013						
Fixed maturities:						
U.S. government obligations	\$969.1	\$(11.3)	\$969.1	\$(11.3)	\$0	\$0
State and local government obligations	728.3	(17.0)	666.7	(16.2)	61.6	(.8)
Corporate debt securities	1,174.2	(28.9)	1,113.4	(28.5)	60.8	(.4)
Residential mortgage-backed securities	663.0	(16.5)	585.5	(12.4)	77.5	(4.1)
Commercial mortgage-backed securities	993.3	(33.1)	993.2	(33.0)	.1	(.1)
Other asset-backed securities	282.8	(2.0)	282.8	(2.0)	0	0
Redeemable preferred stocks	158.4	(10.4)	36.2	(.2)	122.2	(10.2)
Total fixed maturities	4,969.1	(119.2)	4,646.9	(103.6)	322.2	(15.6)
Equity securities:						
Nonredeemable preferred stocks	123.6	(4.8)	123.6	(4.8)	0	0
Common equities	47.3	(5.0)	43.0	(4.7)	4.3	(.3)
Total equity securities	170.9	(9.8)	166.6	(9.5)	4.3	(.3)
Total portfolio	\$5,140.0	\$(129.0)	\$4,813.5	\$(113.1)	\$326.5	\$(15.9)

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(millions)	Total Fair Value	Gross Unrealized Losses	Less than 12 Months Fair Value	Unrealized Losses	12 Months or Greater Fair Value	Unrealized Losses
September 30, 2012						
Fixed maturities:						
U.S. government obligations	\$83.1	\$(.1)	\$83.1	\$(.1)	\$0	\$0
State and local government obligations	61.4	(.4)	29.1	(.2)	32.3	(.2)
Corporate debt securities	35.9	(.4)	14.2	(.1)	21.7	(.3)
Residential mortgage-backed securities	177.2	(12.4)	30.0	(.5)	147.2	(11.9)
Commercial mortgage-backed securities	44.0	(1.3)	31.4	(.1)	12.6	(1.2)
Other asset-backed securities	21.0	(.1)	9.0	0	12.0	(.1)
Redeemable preferred stocks	164.1	(14.5)	24.7	(.4)	139.4	(14.1)
Total fixed maturities	586.7	(29.2)	221.5	(1.4)	365.2	(27.8)
Equity securities:						
Nonredeemable preferred stocks	0	0	0	0	0	0
Common equities	80.8	(6.1)	54.4	(3.4)	26.4	(2.7)
Total equity securities	80.8	(6.1)	54.4	(3.4)	26.4	(2.7)
Total portfolio	\$667.5	\$(35.3)	\$275.9	\$(4.8)	\$391.6	\$(30.5)

(millions)	Total Fair Value	Gross Unrealized Losses	Less than 12 Months Fair Value	Unrealized Losses	12 Months or Greater Fair Value	Unrealized Losses
December 31, 2012						
Fixed maturities:						
U.S. government obligations	\$0	\$0	\$0	\$0	\$0	\$0
State and local government obligations	162.8	(.6)	123.1	(.5)	39.7	(.1)
Corporate debt securities	128.2	(1.0)	128.2	(1.0)	0	0
Residential mortgage-backed securities	149.2	(9.2)	40.2	(.6)	109.0	(8.6)
Commercial mortgage-backed securities	7.1	(.1)	2.1	0	5.0	(.1)
Other asset-backed securities	25.0	(.1)	20.8	0	4.2	(.1)
Redeemable preferred stocks	155.7	(12.7)	24.9	0	130.8	(12.7)
Total fixed maturities	628.0	(23.7)	339.3	(2.1)	288.7	(21.6)
Equity securities:						
Nonredeemable preferred stocks	0	0	0	0	0	0
Common equities	118.2	(10.3)	100.7	(8.2)	17.5	(2.1)
Total equity securities	118.2	(10.3)	100.7	(8.2)	17.5	(2.1)
Total portfolio	\$746.2	\$(34.0)	\$440.0	\$(10.3)	\$306.2	\$(23.7)

Other-Than-Temporary Impairment (OTTI) The following table shows the total non-credit portion of the OTTI recorded in accumulated other comprehensive income, reflecting the original non-credit loss at the time the credit impairment was determined:

(millions)	September 30, 2013	2012	December 31, 2012
Fixed maturities:			
Residential mortgage-backed securities	\$(44.1)	\$(44.2)	\$(44.2)
Commercial mortgage-backed securities	(.9)	(.9)	(.9)
Total fixed maturities	\$(45.0)	\$(45.1)	\$(45.1)

The following tables provide rollforwards of the amounts related to credit losses recognized in earnings for the periods ended September 30, 2013 and 2012, for which portions of the OTTI losses were also recognized in accumulated other comprehensive income at the time the credit impairments were determined and recognized:

	Three Months Ended September 30, 2013		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at June 30, 2013	\$26.9	\$.5	\$27.4
Credit losses for which an OTTI was previously recognized	0	0	0
Credit losses for which an OTTI was not previously recognized	0	0	0
Reductions for securities sold/matured	0	0	0
Change in recoveries of future cash flows expected to be collected ¹	(2.4	) (.1	) (2.5
Reductions for previously recognized credit impairments written-down to fair value ²	0	0	0
Balance at September 30, 2013	\$24.5	\$.4	\$24.9
	Nine Months Ended September 30, 2013		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at December 31, 2012	\$27.1	\$.6	\$27.7
Credit losses for which an OTTI was previously recognized	0	0	0
Credit losses for which an OTTI was not previously recognized	0	0	0
Reductions for securities sold/matured	0	0	0
Change in recoveries of future cash flows expected to be collected ¹	(2.4	) (.2	) (2.6
Reductions for previously recognized credit impairments written-down to fair value ²	(.2	) 0	(.2
Balance at September 30, 2013	\$24.5	\$.4	\$24.9
	Three Months Ended September 30, 2012		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at June 30, 2012	\$28.1	\$.7	\$28.8
Credit losses for which an OTTI was previously recognized	0	0	0
Credit losses for which an OTTI was not previously recognized	0	0	0
Reductions for securities sold/matured	0	0	0
Change in recoveries of future cash flows expected to be collected ¹	(.4	) (.1	) (.5
Reductions for previously recognized credit impairments written-down to fair value ²	0	0	0
Balance at September 30, 2012	\$27.7	\$.6	\$28.3

(millions)	Nine Months Ended September 30, 2012			
	Mortgage-Backed			
	Residential	Commercial	Total	
Balance at December 31, 2011	\$34.5	\$1.3	\$35.8	
Credit losses for which an OTTI was previously recognized	.1	0	.1	
Credit losses for which an OTTI was not previously recognized	.2	0	.2	
Reductions for securities sold/matured	0	(.2) (.2)
Change in recoveries of future cash flows expected to be collected ¹	(3.1) (.2) (3.3)
Reductions for previously recognized credit impairments written-down to fair value ²	(4.0) (.3) (4.3)
Balance at September 30, 2012	\$27.7	\$.6	\$28.3	

¹Reflects expected recovery of prior period impairments that will be accreted into income over the remaining life of the security, net of any current quarter decreases in expected cash flows on previously recorded reductions.

²Reflects reductions of prior credit impairments where the current credit impairment requires writing securities down to fair value (i.e., no remaining non-credit loss).

Although we determined that it is more likely than not that we will not be required to sell the securities prior to the recovery of their respective cost bases (which could be maturity), we are required to measure and report the amount of credit losses on the securities that were determined to be other-than-temporarily impaired. In that process, we considered a number of factors and inputs related to the individual securities. The methodology and significant inputs used to measure the amount of credit losses in our portfolio included: current performance indicators on the underlying assets (e.g., delinquency rates, foreclosure rates, and default rates); credit support (via current levels of subordination); historical credit ratings; and updated cash flow expectations based upon these performance indicators. In order to determine the amount of credit loss, if any, the net present value of the cash flows expected (i.e., expected recovery value) was calculated using the current book yield for each security, and was compared to its current amortized value. In the event that the net present value was below the amortized value, a credit loss was deemed to exist, and the security was written down.

Realized Gains/Losses

The components of net realized gains (losses) for the three and nine months ended September 30, were:

(millions)	Three Months		Nine months	
	2013	2012	2013	2012
Gross realized gains on security sales				
Fixed maturities:				
U.S. government obligations	\$3.1	\$.2	\$6.8	\$9.8
State and local government obligations	0	0	6.8	12.1
Corporate and other debt securities	1.7			